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MEMORANDUM AUDIT REPORT
ON
NATIONAL COUNCIL OF NEGRO WOMEN

Audit Report No. 85-19

August 26, 1985

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Office of the
Assistant Inspector General
for Audit

August 26, 1985

MEMORANDUM FOR AA/APR, MARK L. EDELMAN
FROM: AIG/A, James B. Durnil
SUBJECT: Audit Report No. 85-19 on
National Council of Negro Women

INTRODUCTION

The Office of the Inspector General performed an audit to evaluate the National Council of Negro Women's (NCNW's) progress in developing an International Division.

BACKGROUND

NCNW, a non-profit voluntary organization was founded in 1935 to improve the social and economic status of low income women. The International Division of NCNW was formally organized in 1975 with an AID grant of \$815,000 to oversee, plan and develop international projects. Another similar AID grant was provided in 1980 to strengthen program management. Total grants to NCNW for the International Division of about \$1.7 million have been made by either the Office of Private and Voluntary Cooperation or the Bureau for Africa. Presently, AID is considering another grant for \$1.5 million covering a three year period.

Scope of Audit

The scope of our audit was limited to the grants already received and a new grant proposed for the International Division. Our audit objective was to determine whether NCNW could meet the grant objectives of: (i) gaining an adequate base of non-AID support for the International Division and, (ii) maintaining an adequate financial system that would accurately account for project costs.

We performed work at the National Council of Negro Women, Office of Private and Voluntary Cooperation (PVC), and the Bureau for Africa (AFR) in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

RESULTS OF AUDIT

Prior to awarding the grant proposal currently being reviewed, the Africa Bureau should require the NCNW to (i) take certain actions to ensure that sufficient funds can be raised from the private sector and (ii) provide additional financial information. This is necessary because NCNW has not established an adequate base of non-AID support for the International Division since its inception in 1975. Normally AID expects a development agency such as NCNW to establish a solid base of private support within a 3-5 year time frame. The International Division has not been successful in doing this and AID support has remained nearly constant at about 86 percent.

Past Performance

NCNW has not established a private sector funding base for the International Division. This was contrary to the commitment made in both the 1975 and 1980 grant proposals to build a strong base of private funding. In March 1983, PVC discontinued funding the NCNW International Division based upon both inadequate past performances and a low expectation that a position of financial self-sufficiency could be achieved within a reasonable period of time.

With knowledge of these past problems AFR in 1984 agreed to fund an extension of the PVC project for six months to allow the International Division additional time to prepare and submit a new proposal for funding consideration. This was done with the understanding that internal problems had been solved and through new initiatives the new project, if approved, would be matched by foundations, private sector collaboration and membership. This did not occur. In 1984 AFR agreed to fund a final extension of the PVC project to allow the International Division additional time to submit a new proposal for funding considerations under tight program guidelines.

Continued Funding

Notwithstanding the International Division's poor performance in obtaining private funding, AFR is now considering funding a \$1.5 million 3-year grant, providing NCNW mobilizes resources necessary to accelerate and sustain the financial development of the International Division. To show that they are making progress NCNW has proposed to raise the following amounts of funds from non-government sources within the allotted time frames as shown below.

<u>Time</u>	<u>Amount</u>
within 8 months	20% of AID contribution
within 12 months	30% of AID contribution
within 2nd year	50% of AID contribution
within 3rd year	75% of AID contribution

Similar commitments were made by NCNW in the past, but these commitments were not honored. For example, after they received AID support--a combined amount of about \$735,000 in 1982 and 1983--they did not meet the commitments and in fact only raised a total of about \$3,000 from other private sources. Consequently, special provisions are included in the proposed grant stating

"AID will have grounds to terminate the project if ID does not meet the schedule targets for joint funding."

As shown below, the new project proposal will require NCNW to raise considerably more money than they have ever raised before.

	<u>YEAR I</u>	<u>YEAR II</u>	<u>YEAR III</u>	<u>TOTAL</u>
AID Support	\$595,834	\$495,762	\$408,343	\$1,499,939
NCNW Contributions	178,750	247,881	306,257	732,888
as a percentage of AID support	<u>(30%)</u>	<u>(50%)</u>	<u>(75%)</u>	<u> </u>
TOTAL	<u>\$774,584</u>	<u>\$743,643</u>	<u>\$714,600</u>	<u>\$2,232,827</u>

NCNW's projection of sources of income for the International Division for the first year were primarily from corporations and foundations. Further discussions with the President disclosed that any short falls from

these sources would be covered from membership income which averages about \$130,000 per year. Similar targets had not been established for the second and third years and there was some question as to where the funds would come from and who would be responsible for raising the funds.

NCNW does not have an adequate proposal to directly address the private financing problem, nor do they plan on hiring experienced personnel with specific fund-raising tasks. This matter was brought to the attention of the Africa Bureau and we were informed, in addition to the strict matching fund requirements in the project proposal, they would provide closer surveillance to assure that NCNW attains grant agreement objectives.

Actions Necessary to Raise Funds

It appears NCNW is anticipating continued Government support, so more should be done to broaden its private funding base. This is a major task that requires a concentrated effort and not a part-time job as proposed by the NCNW President. Therefore, we believe a formal fundraising office headed by an experienced individual should be designated with the sole responsibility of raising funds for the International Division.

Among other things, the office responsible for fund-raising should prepare specific proposals to directly address the private sector financing problem, including fundraising goals and possible sources of funds for the length of the grant. These proposals along with other fundraising data, will assist AFR to better monitor NCNW's progress in raising the necessary funds from the private sector in accordance with the timeframes established in the proposed grant.

Accounting System

The International Division has an accounting system that appears to adequately accumulate and separate income and costs for AID projects. However, this is a new system and experience on its implementation is lacking so precautions should be taken by AID to assure financial information is correct. In the past four years NCNW was not able to meet AID's requirement that a certified financial statement be prepared and submitted every year. This may have been due to the lack of experienced personnel. NCNW had taken measures to improve this situation by filling the vacant Director of Finance

position and by hiring a CPA firm to compile statements for prior years.

In this regard AID should require NCNW to submit certified financial statements for 1984 before any funds are dispersed under the proposed grant. AID should also assure that indirect cost rates are determined annually. A provisional indirect cost rate, established in 1980, was still being used. Final indirect cost rates should be determined at the end of the first year to properly allocate indirect costs to the grant. Any differences between the provisional rate and the actual rate of indirect costs should be reflected in subsequent years by increasing or decreasing the grant balance.

Other Matters

In addition to our observations on fund raising we noted that the cost proposal included costs not normally allowed and was incomplete. For example, NCNW included a 10 percent provision for inflation of \$33,670 for the second and third years. This contingency is not allowable in accordance with the cost principles for nonprofit organizations and will have to be deleted from the proposal. Other provisions should be reviewed closely after NCNW provides cost information on the matching portion of the grant.

NCNW, included in the proposal, only cost information for AID's contribution and did not account for the \$732,888 they will contribute to the project. Without supporting cost data it is difficult for AID to determine if costs budgeted for the overall project are appropriate and necessary.

CONCLUSION

AID hopes to overcome some of the problems encountered by the International Division in the past by committing NCNW to provide more financial support. It appears NCNW may possibly have sufficient support from private sources for the first year, but there is considerable doubt as to whether NCNW will be able to raise funds for the additional two years. The potential for raising needed funds would be greatly increased if more attention was given to preparing specific proposals, including fundraising goals, and designating specific individuals for fund raising activities.

It appears past problems in accounting for International Division project costs have been resolved by hiring outside consultants. The accounting system appears to be adequate, but financial records for prior years have not been updated. Consequently, financial information presented in the proposal may be inaccurate or incomplete, and certified financial statements would increase credibility.

Active involvement and close surveillance by AFR, if additional funds are provided, will be needed to ensure compliance with indirect costs and matching grant requirements.

RECOMMENDATIONS

We recommend that the Bureau for Africa ensure:

Recommendation No. 1

NCNW establishes a fundraising capability using an experienced individual capable of preparing specific proposals to meet the matching grant requirements for all three years, and final approval of the grant be withheld until this is accomplished.

Recommendation No. 2

Certified financial statements are prepared, validating the financial data for the period October 1, 1983 through September 30, 1984, prior to final approval of the grant agreement.

Recommendation No. 3

Supporting detail for the matching portion of the grant (\$732,888) is made available and all budgeted items are necessary and in compliance with the grant agreement.

Recommendation No. 4

Close surveillance is provided through the life of the project to ensure:

- a. the necessary funds are raised from the private sector according to the agreed timeframes,
- b. actual indirect costs are determined and used, and if necessary, grant amounts are adjusted accordingly, and
- c. all requirements for matching grants are met.

MANAGEMENT COMMENTS

The Africa Bureau concurred with all four recommendations and set forth the details of corrective action either planned or in the process of being implemented. The complete text of management comments is included as Appendix A.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

AUG 16 1985

MEMORANDUM FOR RIG/A/W, Mr. B. Reginald Howard (Acting)
FROM : AA/AFR, Mark Edelman
SUBJECT: Audit Memorandum of the National Council of Negro Women (NCNW)

The following responds to the subject draft audit memorandum. Comments are made in the same sequence as the recommendations.

Recommendation No. 1:

We agree that measures need to be taken to have a specific person responsible for fund raising. NCNW/ID's plans in this regard are covered generally in their proposal and specific steps to implement this action have been discussed with the AFR/RA staff. We do not believe, however, that an office needs be set up for this purpose. In our discussions with the director of ID, she agreed that ID will pay for a fund raiser (initially part-time) out of funds received from private sources. We will closely monitor the process of selecting a fund raiser and the results of his/her efforts. Also, NCNW has a part-time fund raiser on staff who will augment the ID effort in raising funds. A percentage of the salary of the director of ID is to come from NCNW in the future so that more of her time can be devoted to revenue generation. All these efforts will be focused not only on the private sector but on the large nation-wide system of NCNW chapters and affiliates where a concentrated drive should result in a positive response.

Recommendation No. 2:

We were told by the director of ID that financial reports for the period October 1, 1983 through September 30, 1984 are now being prepared and that she expects them to be completed by August 30, 1985.

Recommendation No. 3:

The ID director informed us that ID is currently working on a detailed budget for the matching portion of the grant. We have, however, included a provision in the project authorization that the cooperative agreement will covenant NCNW/ID to submit this budget within four months of the obligation of funds.

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Recommendation No. 4:

We have made it clear that the cooperative agreement may be terminated without further core funding to ID if any of the scheduled targets for fund raising are not met. A covenant is included in the project authorization and the cooperative agreement that ID will provide evidence, acceptable to us, that funds are being raised as scheduled.

On the matter of indirect costs and financial statements, we plan to arrange a meeting between ID and A.I.D.'s Contracts and Financial Management Offices to ensure that ID understands A.I.D.'s financial system and that the indirect cost rate for ID is updated.

cc: IG, Herbert L. Beckington
AIG/A, James B. Durnil
IG/PPP, E. John Eckman
AFR/CONT, John Copes

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